



Patrick W. Henning, Director
February 24, 2009
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Arnold Schwarzenegger
Governor

Mr. Charles Brown, Executive Director
Northern Rural Training Employment Consortium
525 Wall Street
Chico, CA 95928

Dear Mr. Brown:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the Northern Rural Training and Employment Consortium's (NoRTEC) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Mr. Gerald Lee from April 7, 2008 through April 11, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by NoRTEC with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of NoRTEC, a review of applicable policies and procedures, and a review of documentation retained by NoRTEC for a sample of expenditures and procurements for PY 2007-08.

We received your response to our draft report on September 23, 2008, and reviewed your comments and documentation before finalizing this report. Because your response did not adequately address findings 1, 2, 4, 5, and 6 cited in the draft report, we consider these findings unresolved. We request that NoRTEC provide the Compliance Review Division (CRD) with additional information and corrective action plans (CAP) to resolve the issues that led to the findings. Therefore, these findings remain open and have been assigned Corrective Action Tracking System (CATS) numbers 80183, 80184, 80186, 80187, and 80188.

Because your response adequately addressed finding 3 cited in the draft report, no further action is required and we consider the issue resolved.

BACKGROUND

The NoRTEC was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, NoRTEC was allocated: \$2,488,037 to serve 1,414 adult participants; \$2,670,829 to serve 312 youth participants; and \$1,769,989 to serve 500 dislocated worker participants.

For the quarter ending January 31, 2008, NoRTEC reported the following expenditures and enrollments for its WIA programs: \$829,133 to serve 468 adult participants; \$888,332 to serve 129 youth participants; and \$371,892 to serve 166 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, NoRTEC is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following areas: Program/administrative cost, program income, and debt collection. The findings that we identified in these areas, our recommendations, and NoRTEC's proposed resolution of the findings are specified below.

FINDING 1

Requirement: 20 CFR 667.220 (a) states, in part, that the cost of administration is that allocable portion of necessary and reasonable allowable cost including local grant recipients, local grant subrecipients, local fiscal agents, and One-Stop operators that are associated with specific administrative functions.

Observation: We observed that NoRTEC subrecipients did not include its administrative cost in its quarterly expenditure report. In

response, NoRTEC conducted and procured for a One-Stop operator so that NoRTEC's subrecipients would not have to report administrative cost. NoRTEC selected Northern Central Counties Consortium to be the designated One-Stop operator in coordinating NoRTEC's subrecipients within each One-Stop center. However, neither the Department of Labor (DOL) nor the State has officially approved this action as an acceptable resolution of the issue area. The State is meeting with DOL regarding NoRTEC's position on identifying administrative expenditures and ensuring that costs are appropriately classified in the administrative and program categories.

Recommendation: We recommended that NoRTEC provide CRD with a CAP stating how it will ensure that their subrecipients' administrative expenditures are reported in the Job Training Automation (JTA) expenditure report. If DOL approves NoRTEC's method of determining costs as administrative or program in the operation of its One-Stop centers, this issue will be closed.

NoRTEC Response: The NoRTEC stated that they will wait for DOL to respond before making any further comment on this issue.

State Conclusion: This issue will remain open pending response from DOL and has been assigned CATS number 80183.

FINDING 2

Requirement: 20 CFR Section 667.300(c)(2) states, in part, that financial reports must include any income or profits earned, including such income or profits earned by subrecipients.

WIA Directive WIAD01-6 requires, in part, that program income generated during the life of a specific allocation must be expended before the end of the availability of funds. Any unexpended funds must be returned.

Observation: We found that NoRTEC's subrecipients do not report program income earned and expended prior to requesting funds from NoRTEC. Unlike the quarterly expenditure reports submitted by NoRTEC to the State, the cash draw reports submitted by the subrecipients do not contain a separate line item to report program income earned and expended. Although NoRTEC staff provided documentation from their subrecipients to substantiate

that it did not have any excess cash on hand, NoRTEC staff could not provide any documentation to support that their subrecipients expended program income prior to requesting additional funds.

Recommendation: We recommended that NoRTEC provide CRD with a CAP to ensure that, in the future, its subrecipient cash draw request includes program income earned and expended.

NoRTEC Response: The NoRTEC stated that they modified their subrecipient cash request form to include the amount of cash on hand that was generated from program income.

State Conclusion: Based on NoRTEC's response, we cannot resolve this issue at this time. The NoRTEC did not provide CRD with a copy of the updated subrecipient cash request form and verification of implementation of this form. We recommend that NoRTEC provide CRD with verification that subrecipients are using this form. Until then, this issue remains open and has been assigned CATS number 80184.

FINDING 3

Requirement: 20 CFR Section 667.500(a) states, in part, that a State must utilize the audit resolution, debt collection and appeal procedures that it uses for other Federal grant programs. If a State does not have such procedures, it must prescribe standards and procedures to be used for this grant program.

WIA Directive WIAD01-05 states, in part, that funds collected by LWIAs in the settlement of debts must be returned to CRD immediately upon their receipt.

Observation: We reviewed NoRTEC's debt collection policy and found that it lacked instructions indicating that funds collected through the debt collection process by NoRTEC must be returned to CRD immediately upon their receipt.

Recommendation: We recommended that NoRTEC update their debt collection procedures to include the above missing item and provide CRD with a copy.

NoRTEC Response: The NoRTEC stated that they revised their Debt Collection Policies and Procedures to include the missing item and provided a revised copy with their response.

State Conclusion: We consider this finding resolved.

PROCUREMENT REVIEW RESULTS

While we concluded that, overall, NoRTEC is meeting applicable WIA requirements concerning procurement, we noted instances of noncompliance in the following areas: conflict of interest and cost/price analysis. The findings that we identified in these areas, our recommendations, and NoRTEC's proposed resolution of the findings are specified below.

FINDING 4

Requirement: 29 CFR Section 95.42 states, in part, no employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.

Observation: We reviewed an expense, that appears to be a conflict of interest. Specifically, NoRTEC hired California Software Studios (CSS) as the contractor in April 2002 as part of their Website Technology Initiative for assisting small businesses by providing a webpage and an E-mail account. The billing address for CSS is the same address we found from a home internet service provider reimbursement charge for one of NoRTEC's clerical staff. NoRTEC has since renewed this contract annually and pays CSS \$3,600 a month.

Recommendation: We recommended that NoRTEC provide CRD with supporting documentation and justification for the above procurement to address the apparent conflict of interest. If NoRTEC cannot provide the supporting documentation, we recommended that NoRTEC provide a CAP for the potential \$3,600 a month from April 2002 in questioned costs. In addition, we recommended that the NoRTEC provide CRD with a CAP to resolve the conflict

of interest and ensure that future procurements do not involve apparent conflict of interest situations.

NoRTEC Response: The NoRTEC stated that they conducted the procurement of California Software Studios (CSS) in an open manner in full compliance with WIA requirements through a failed Request for Proposal (RFP) process. Also, NoRTEC states that there was not a conflict of interest because the clerical staff in question does not have any duties relating to procurement and was not a part of the decision making process. The NoRTEC provided a copy of the original RFP and the response from CSS.

State Conclusion: Based on NoRTEC's response, we cannot resolve this issue at this time. The RFP documentation provided by NoRTEC did not include any documentation of the independent analysis stated by NoRTEC, review sheets or meeting minutes indicating who was involved in the review and decision making process for this procurement. We, again, recommend that NoRTEC provide CRD with supporting documentation and justification for the above procurement to address the potential conflict of interest. This issue remains open and is assigned CATS number 80186.

FINDING 5

Requirement: 29 CFR 95.43 states, in part, that all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interests as well as noncompetitive practices among contractors that may restrict or eliminate competition.

29 CFR 95.45 states, in part, some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action.

Observation: The NoRTEC contracted with CSS in April 2002 and has renewed its contract without conducting the required cost price analysis in relation to contract modifications. In addition, NoRTEC was unable to locate the original cost/price analysis with CSS. Currently, NoRTEC pays CSS \$3,600 a month for its services.

Recommendation: We recommended NoRTEC provide a CAP to CRD ensuring that a cost/price analysis will be conducted and for future contract modifications as well as all other procurement transactions.

NoRTEC Response: The NoRTEC stated that a cost/price analysis was done for both contract extensions for CSS and provided a copy of each. The first contract extension cost/price analysis states that NoRTEC was extending the contract six additional months because there would not be any change in the original cost of the contract. The second contract extension cost/price analysis states that CSS will continue to provide the same services for the flat rate of \$3,600 per month, which is \$90 per hour for forty hours, and that in NoRTEC's experience, \$90 per hour was on the low side of rates currently being charged because they had paid \$150 per hour in the past.

State Conclusion: Based on NoRTEC's response, we cannot resolve this issue at this time. The cost/price analysis provided by NoRTEC is not sufficient because it was not supported by documentation of previous contracts for services in which NoRTEC paid \$150 per hour for the same services provided by CSS. We recommend that NoRTEC provide documentation of services provided at the rate of \$150 per hour used to substantiate the cost/price analysis stated above. Also, we again recommend that NoRTEC provide a CAP to CRD ensuring that a cost/price analysis will be conducted for future contract modifications as well as all other procurement transactions. This issue remains open and is assigned CATS number 80187.

FINDING 6

Requirement: 29 CFR 95.45 states, in part, that some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action.

Observation: During our review, we found at least three instances where the cost price analysis was conducted after the fact. Specifically:

- Smart UPS 3000VA (Network computer power back-up) for \$1,280 was purchased on November 6, 2007. The cost/price analysis documentation was dated December 19, 2007.

- An 18 cubic foot refrigerator for \$448 was purchased on November 5, 2007. The cost/price analysis documentation was dated November 6, 2007.
- An office desk for \$1,128 was purchased on November 10, 2007. The cost/price analysis documentation was dated December 19, 2007.

Recommendation: We recommended that NoRTEC submit a CAP, with a timeline, to CRD indicating how it will, in the future, maintain documentation to substantiate that multiple price quotes are conducted prior to obtaining goods and services using small purchase procedures.

NoRTEC Response: The NoRTEC states that a cost/price analysis is performed on all procurements prior to purchase but that internet catalog price quote are printed and attached to the invoice within a reasonable time frame after the purchase to allow more efficient workflow.

State Conclusion: Based on NoRTEC's response, we cannot resolve this issue at this time. Although NoRTEC states that a cost/price analysis is performed prior to all procurements, we did not see this in its small purchase samples selected for review. All three samples reviewed showed price quotes obtained after the purchase. The NoRTEC did not provide justification showing how documenting the required cost/price analysis after the purchase allows for a more efficient work flow since it now appears that work could be duplicative. We, again, recommend that NoRTEC submit a CAP, with a timeline, indicating how it will, in the future, maintain documentation to substantiate that multiple price quotes are obtained prior to obtaining goods and services using small purchase procedures. This issue remains open and is assigned CATS number 80188.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than March 24, 2009. Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Division
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is NoRTEC's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain NoRTEC's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Mechelle Hayes at (916) 654-7005 or Mr. TG Akins at (916) 654-8428.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jessie Mar".

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: Linda Beatie, MIC 50
Gary Gibson, MIC 50
Jose Luis Marquez, MIC 50
Daniel Patterson, MIC 45